



Sheet (4)

1. The double-counting problem refers to:
 - a. the inclusion of both intermediate and final products in the calculation of GDP.
 - b. The nominally higher value of GDP when prices double.
 - c. The equivalence of flow-of-product and earnings or cost approaches.
 - d. The problems caused by using value-added measures in the lower loop.
 - e. All the above.
2. To compute a firm's contribution to GDP on a value added basis, the value at market price of the goods that it has produced is diminished by:
 - a. all indirect business taxes paid
 - b. any undistributed profits
 - c. depreciation
 - d. all sales to other business firms
 - e. none of the above
3. Economic growth is always measured in real terms because:
 - a. output changes from year to year
 - b. the flow of product approach does not always yield the same figure as the earnings or cost approach
 - c. the differences in nominal GDP from year to year too large
 - d. the price level changes from year to year
 - e. all of the above
4. In GDP statistics, investment includes
 - a. any product produced for the government during the year in question
 - b. any purchase of common stock issued during the year in question
 - c. any increase in the amount of year-end inventories over inventories held at the beginning of the year in question
 - d. any commodity bought by a consumer but not fully consumed by the end of the year in question
 - e. none of these items
5. In GDP statistics, a negative gross investment figure:
 - a. could never occur
 - b. could appear if the total of depreciation on buildings and equipment was sufficiently large
 - c. would automatically occur if there was no production of buildings or equipment during the year
 - d. could be caused by a sufficiently large reduction in inventories during the year
 - e. would mean that the economy had produced more than it had consumed
6. In NDP statistics, a negative investment figure:
 - a. could never occur
 - b. could appear if the total of depreciation on buildings and equipment was sufficiently large

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 - d. could be caused by a sufficiently large increase in inventories during the year
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7. One of the five items listed below is not in the same class as the other four for purposes of national income accounting. Which one?
- a. corporation income (or profits)
 - b. government transfer payments
 - c. net interest payments by business
 - d. rental income
 - e. wages and salaries
8. If you want to compute disposable personal income from NDP, then one thing you must not do is:
- a. deduct depreciation
 - b. add government transfer payments
 - c. deduct indirect business taxes
 - d. deduct social security levies
 - e. deduct undistributed corporation profits
9. If nominal GDP was \$360 (billion) in 1992 and if the price level rose by 20 percent from 1990 to 1992, then the 1992 GDP, measured in 1990 prices, was (in billions):
- a. \$300.
 - b. \$320.
 - c. \$340.
 - d. \$360.
 - e. \$432.
10. What is the consumer price index (CPI) calculating?
- a. The CPI is a measure of the average change over time in prices paid by urban consumers for a market basket of consumer goods and services
 - b. the CPI is a price index that included the prices of all goods and services produced in the country (consumption, investment, government purchases, and net exports)
 - c. the CPI measures the level of prices at the wholesale or or producer stage.. It includes the prices of foods, manufactured product and mining products
 - d. the CPI is equally weighted average of food, housing and gas prices
 - e. none of the above.

Problems:

1. Country X produces just three goods: apples, T-shirts, and bicycles. The prices of each good and the outputs for three years are listed in Table 1.

Table 1

	Year 1		Year 2		Year 3	
Product	P1	Q1	P2	Q2	P3	Q3
Apples	\$1	50	\$3	60	\$4	70
T-shirts	\$6	100	\$8	140	\$7	160
Bicycles	\$80	90	\$100	100	\$90	110

- a. Calculate nominal GDP for each year.
 1. nominal GDP1 =
 2. nominal GDP2 =
 3. nominal GDP3 =
- b. Assume that the first year is used as the base year. Calculate real GDP for each year.
 1. real GDP1 =
 2. real GDP2 =
 3. real GDP3 =
- c. Calculate the value of the GDP deflator for each year.
 1. GDP deflator1 =
 2. GDP deflator2 =
 3. GDP deflator3 =
- d. Measure the rate of inflation from:
 1. year 1 to year 2.
 2. year 2 to year 3.

(Hint: These are percentage changes in the GDP deflator)
- e. By how much did the economy of country X grow from:
 1. year 1 to year 2?
 2. year 2 to year 3?

2. Given below are the data of a Simple economy. These figures are complete – there are no government or foreign sectors.

	Year 1	year 2
-New buildings produced	5	5
-New equipment produced	10	10
-Consumer goods produced	110	90
-Consumer goods consumed	90	110
-Estimated depreciation on existing buildings during year	10	10
-Estimated depreciation on existing equipment during year	10	10
-Inventories of consumer goods at beginning of year	30	50
-Inventories of consumer goods at close of year	50	30

Calculate GDP and NDP for year 1 and year 2

3. Given the data below:

-Compensation of employees	642
-Income taxes	116
-Capital consumption allowance	95
-Income other than compensation of employees	209
-indirect taxes	101
-Net investment	152

Calculate GNP, NNP, NI and DI